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W-IA-BIA-12-88

**U.S. DEPARTMENT OF THE INTERIOR**  
**OFFICE OF INSPECTOR GENERAL**  
**AUDIT REPORT**

REVIEW OF SELECTED ASPECTS OF  
TRUST FUND ADMINISTRATION  
BY THE BILLINGS AREA OFFICE  
BUREAU OF INDIAN AFFAIRS



This report may not be disclosed to anyone other than the auditee  
except by the Assistant Inspector General for Administration,  
Office of Inspector General, U.S. Department of the Interior,  
Washington, D.C. 20240.

REPORT NO. 88-116  
September 1988

**DATE**

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# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20240



September 21, 1988

## Memorandum

To: Assistant Secretary - Indian Affairs

From: Assistant Inspector General for Audits

Subject: Final Audit Report, "Review of Selected Aspects of Trust Fund Administration by the Billings Area Office, Bureau of Indian Affairs" (No. W-IA-BIA-12-88) (Report No. 88-116)

This report presents the results of our review and evaluation of allegations that (1) \$7 million of Individual Indian Money funds administered by the Billings Area Office is unaccounted for and (2) the Area Office paid \$94,000 of judgment funds awarded to the Assiniboine and Sioux Tribes of the Fort Peck Reservation to the wrong beneficiaries.

Our review disclosed that the Area Office had not reconciled its Individual Indian Money control accounts since mid-1985 or corrected computer system deficiencies, both of which created large misstatements in the control accounts for several years. Consequently, as of February 28, 1986, a net difference of \$7.6 million existed between subsidiary ledger accounts maintained by the Area Office and general ledger control accounts maintained by the Bureau's Division of Financial Management in Albuquerque. Of this amount, we determined that \$7.2 million resulted from net errors attributable to computer system design and reconciliation procedure deficiencies involving control accounts. However, unaccounted for was a remaining balance of \$374,000. As a result, we concluded that the Area Office did not know whether the 39,000 individual and tribal accounts, valued at \$51 million, were correctly stated. We recommended that the Bureau of Indian Affairs give high priority to promptly achieving up-to-date accounting ledger reconciliations and correcting the Individual Indian Money system and reconciliation procedures. The recommendations, when implemented, will streamline the reconciliation process and institute more effective internal controls.

We also found that the Area Office (1) advanced Tribal judgment funds in excess of those authorized by the Tribes by about \$93,000 and (2) did not provide the Tribes with an accounting of the distribution of that portion of the judgment funds distributed among the Tribes' six communities. Since the resolution of this matter has long been delayed by the Bureau, we recommended that the Bureau act now to provide the necessary accounting to the Tribes and resolve the unauthorized advances.

A third allegation concerning irrigation accounts receivable was previously addressed in another recent report issued by our office entitled "Operation and Maintenance Assessments of Indian Irrigation Projects - Bureau of Indian Affairs" (Report No. 88-42). A fourth allegation concerning the overall

deficiencies in the Bureau's accounting system has been addressed in numerous previous reports issued by our office and the General Accounting Office. Accordingly, we did not pursue these matters further.

The Acting Assistant Secretary - Indian Affairs, responded to our draft audit report on July 27, 1988. We incorporated the Bureau's comments into the Findings and Recommendations section of the report where appropriate. The full text of the Bureau's response is in Appendix 6. Representatives of the Bureau's Branch of Trust Fund Accounting and the Area Financial Manager met with our staff in Sacramento, California, on August 3, 1988, and discussed the Bureau's response and provided additional information. The Bureau generally concurred with six of the report's eight recommendations. However, the Bureau's response did not provide complete information on target dates and individuals responsible for implementing each recommendation. The Bureau did not agree with two recommendations, and we are requesting that those recommendations be reconsidered. Appendix 7 identifies information and actions needed to resolve all the recommendations.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by November 23, 1988. The legislation creating the Office of Inspector General requires semiannual reporting to the Congress on all reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been implemented.

  
Harold Bloom

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## INTRODUCTION

### BACKGROUND

We reviewed the Individual Indian Money accounts and Tribal judgment funds awarded to the Assiniboine and Sioux Tribes of the Fort Peck Reservation under the United States Court of Claims Docket Number 184. The accounts and funds were administered by the Billings Area Office, Bureau of Indian Affairs. The audit was performed in response to allegations made by a former employee of the Area Office.

The Bureau uses the Individual Indian Money system to distribute funds received for Indians, to help Indians needing a fiscal custodian to manage their money, and to hold funds deposited for a special purpose. In 1986, approximately 39,000 accounts were being administered by the Area Office. As of February 28, 1986, the total balance reported for these accounts was approximately \$51 million (see Appendix 1).

The accounting for Individual Indian Money accounts is accomplished in two separate computerized systems. The first is the subsidiary ledger system, which was designed specifically for the Individual Indian Money function and began operation in 1977. The financial accounting aspects of the subsidiary system are maintained by the Billings Area Financial Management Office. Computer programming support for the system is provided by the Billings Area Information Management Center, which is organizationally under the Bureau's National Technical Support Center in Albuquerque, New Mexico. The second system is the general ledger system, which is used to account for all of the Bureau's financial activities. The general ledger system is maintained by the Bureau's Division of Financial Management, located in Albuquerque, New Mexico. Entries to both systems are generated and entered via computer terminals primarily by the Area Office and the agency offices. Each system maintains a set of control totals for each cash and liability account category. The control accounts within the subsidiary ledger system should equal the sum of the underlying account balances, whereas only control accounts are maintained on the general ledger system. The amounts recorded in both systems for Individual Indian Money should equal when the two systems are properly reconciled. The Billings Area Financial Management Office is responsible for performing the reconciliations.

On July 18, 1980, the United States Court of Claims awarded a \$9 million judgment to the Assiniboine and Sioux Tribes of the Fort Peck Reservation (formerly the Fort Peck Indians of the Fort Peck Reservation). Seventy percent of the funds, less attorney and litigation expenses, were to be distributed as per capita payments to enrolled Tribal members. The remaining 30 percent were to be used for social and economic programs, including such programs as land acquisition and development of local reservation community projects.

### OBJECTIVES AND SCOPE

The objective of our audit was to review allegations that (1) Individual Indian Money funds of \$7 million were unaccounted for as of February 1986 and (2) the Area Office paid \$94,000 of Fort Peck Docket 184 trust funds to the wrong beneficiaries, resulting in a possible loss to the Government.

We concentrated our review of the alleged \$7 million discrepancy primarily on analytical procedures designed to detect major differences between subsidiary control accounts maintained at the Area Office and general ledger control totals maintained in Albuquerque from April 1, 1981, to February 28, 1986. We did not attempt to reconcile the control accounts, since this is a Bureau responsibility, nor did we audit individual or tribal account balances.

We used Area Office records and interest calculated by the Bureau's Branch of Trust Fund Accounting in Albuquerque to recompute the distribution of Fort Peck Docket 184 funds by community through November 30, 1987. We did not attempt to verify whether the Fort Peck communities used the funds for the purposes for which they were released from the Docket 184 trust, nor did we attempt to verify the population figures established by the Tribes.

Our review was performed from December 1987 through February 1988 at the Billings Area Office in Billings, Montana, and the Northern Cheyenne Agency in Lane Deer, Montana. The review was made, as applicable, in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary under the circumstances.

As part of our review, we evaluated the system of internal accounting controls over the administration of Individual Indian Money accounts by the Billings Area Office. We did not review administrative controls to ensure compliance with laws and regulations governing Individual Indian Money accounts, since this was not part of our audit objective. The major internal control weaknesses noted were the failure to perform accurate and timely monthly reconciliations and computer system deficiencies, both of which created inaccurate control account balances and impeded the reconciliation process.

The Findings and Recommendations section of this report addresses the internal control weaknesses. Our recommendations, if implemented, should improve the internal controls in these areas.

#### PRIOR AUDIT COVERAGE

During the past 5 years, one report issued by the Office of Inspector General addressed some of the same issues covered by this report. The prior report, "Review of Individual Indian Money Accounts Administered by the Bureau of Indian Affairs (Consolidated Report)" (No. C-IA-BIA-25-84), was issued in March 1986. This consolidated report, which covered the 3-year period ending September 30, 1983, summarized the results of reviews performed at five agencies and cited a lack of monthly reconciliations as the most serious problem facing the Bureau's Individual Indian Money operation. The report recommended that the Bureau (1) require monthly reconciliations of Individual Indian Money subsidiary account balances with the Bureau's general ledger system; (2) initiate a followup procedure to ensure that the reconciliations are performed; and (3) perform a onetime accounting adjustment, no later than the end of calendar year 1986, that would bring the general ledger control account balances into agreement with the corresponding subsidiary account balances.

According to the Chief, Division of Accounting Management, the Bureau trained agency and area personnel in reconciliation procedures in 1987 and early 1988 and instructed them to comply with existing Bureau Manual directives regarding monthly reconciliations. The Bureau also instructed its personnel to give priority to reconciling current monthly activities and to forward the completed reconciliations to the Branch of Trust Fund Accounting in Albuquerque, New Mexico, for review and monitoring. However, the Bureau had not made final decisions regarding the unreconciled prior balances and the recommended onetime adjustment.

In April 1986, the Bureau proposed to transfer Individual Indian Money financial operations to a commercial bank. However, a contract was not issued because of threatened litigation concerning the competitiveness of the selection and the Bureau's failure to consult all affected tribes. In September 1988, the Bureau awarded a contract for third party financial services for all the Bureau's trust funds. However, the actual transfer of Individual Indian Money operations is not expected to occur until approximately 1990.

The Bureau's fiscal year 1988 appropriation bill (Public Law 100-202) prohibited the use of appropriated funds to transfer trust funds for the purpose of management under a third party contract until such funds were audited and reconciled. In response, the Bureau recently notified a Congressional committee that it plans to contract for annual audits of all trust account transactions beginning with fiscal year 1987. The audits, however, would cover only current year transactions and not prior balances.

## FINDINGS AND RECOMMENDATIONS

### A. INDIVIDUAL INDIAN MONEY ACCOUNT RECONCILIATIONS

The Billings Area Office's failure to reconcile its Individual Indian Money control accounts and to correct automated subsidiary ledger system defects created a net \$7.6 million imbalance between the systems as of February 28, 1986. The Bureau Manual, Part 42, Supplement 3.10F(4), requires monthly reconciliations between subsidiary ledger totals maintained by the Area Office and general ledger control account balances maintained by the Division of Financial Management in Albuquerque. However, the Billings Area Director stopped the reconciliations as of June 1985 because (1) the Bureau was planning to transfer Individual Indian Money financial operations to a commercial bank under contract and (2) the Director felt that the considerable resources required to reconcile the accounts needed to be devoted to higher priority work. As a result, major system processing errors have gone undetected; net unreconciled differences of \$374,000 existed; and the Area Office did not know whether the 39,000 individual and tribal accounts, valued at \$51 million, were correctly stated.

#### Reconciliations

Approximately 375,000 transactions are processed and posted in detail to the Area Office's subsidiary ledger accounts and in summary to the general ledger control accounts each year.

As of February 28, 1986, a net difference of \$7.6 million existed between subsidiary ledger and general ledger control account totals. We found that this difference, which is detailed in Appendix 1, resulted primarily from computer system design and reconciliation procedure deficiencies that existed for several years. As illustrated in Appendix 2, our adjustments tend to explain all but \$374,000 of the \$7.6 million net difference between the two systems. The identified adjustments fall into two categories: (1) adjustments to the Undistributed Interest control account in the subsidiary ledger system to correct computer system deficiencies and unrecorded reimbursements and (2) adjustments to correct misclassifications and other errors between general ledger control accounts. In theory, these adjustments should not have any effect on the accuracy of the underlying individual and tribal account balances. However, we were unable to express any specific assurances on the reliability of the individual account balances because of the remaining \$374,000 that could not be reconciled.

The computer system and reconciliation procedure deficiencies included:

- A computer system design deficiency which resulted in the erroneous deletion of \$12.1 million in debit entries originally recorded to the Undistributed Interest control account in the subsidiary ledger. Conversely, Area Office financial management personnel failed to record \$19.6 million of offsetting reimbursement credits to this same control account (see Appendix 3).

- Control account misclassifications totaling \$22.3 million which occurred within the general ledger system during fiscal year 1985, in part



because of a 1-year delay in setting up a new control account in the subsidiary ledger system (see Appendix 4).

-- An estimated \$7 million in reconciling adjustments not recorded by Finance personnel to correct two general ledger control accounts (see Appendix 4).

In addition to explaining the large imbalances, the foregoing deficiencies also helped explain why the reconciliation process required considerable personnel resources. Other deficiencies which created inaccuracies within the system and/or complicated the Area Office's reconciliation process included:

-- The subsidiary ledger system, which did not generate a report suitable for reconciliation purposes. The usefulness of the detail report generated by the system was limited because the report did not sort and total transactions by document.

-- A manual interest transaction entered into the subsidiary ledger system which generated an automatic posting to a cash account instead of the Undistributed Interest account, resulting in an imbalance between subsidiary and general ledger control accounts.

-- Inaccurate control totals when subsidiary accounts were transferred from one agency location to another because the system did not automatically change the agency control totals.

-- No system in place to ensure proper documentation for all reconciling items. During our review of 52 adjustments, totaling about \$16.8 million, the Area Office could not provide supporting documentation for 14 adjustments, totaling about \$294,000.

Because of the deficiencies within the automated subsidiary ledger system, Finance personnel maintained a separate set of manual document records just to reconcile the subsidiary and general ledger systems. As a result, it took up to one staff month of effort each month to perform the reconciliations. In our opinion, this defeated one of the major benefits of an automated system.

As discussed in Appendices 3 and 4, the Area Office partially corrected some of the problems and related control account misstatements. However, we believe that until all the identified problems are rectified, reconciliations cannot be performed effectively or efficiently and the reliability and integrity of the Individual Indian Money system will continue to be questioned.

#### Agency General Ledger Accounts

Our prior report issued in March 1986 entitled "Review of Individual Indian Money Accounts Administered by the Bureau of Indian Affairs (Consolidated Report)" identified the Billings Area Office as one of only three area offices which were reconciling their accounts. This was based on monthly reconciliations of the Billings Area Office accounts performed for July and August 1983. Our current audit, however, found that the reconciliations

performed at the time were not complete because the Area Office did not include all active agency accounts in the reconciliations through August 1983.

The August 1983 reconciliation did not include four agency general ledger balances, totaling \$1.1 million. A consolidated set of general ledger accounts was created to include all agency accounts and to facilitate Areawide reconciliations. However, the four agency accounts were not properly transferred and closed when the accounts were consolidated in the early 1980s.

Approximately \$858,000 of the \$1.1 million was in the Wind River Agency accounts. We found that the Agency accounts included entries that were also recorded in the consolidated general ledger accounts. We also found, however, that the Agency accounts included legitimate entries which were neither recorded in the consolidated accounts nor included in the Areawide reconciliations. Accordingly, the Area Office did not account for all Individual Indian Money funds in its reconciliations through August 1983.

The Area Office also did not include the corresponding Agency subsidiary account entries in its reconciliations. The entries were maintained on manual records by the Wind River Agency until July 1983. These subsidiary records showed an ending balance of approximately \$37,000, consisting primarily of interest earned on prior account balances. At the time of our review, Finance personnel were unsure whether this outstanding balance was ever liquidated.

The Area Office began, in November 1987, an effort to reconcile all accounts starting with June 1985. However, little progress was being made at the time of our audit. Because of the aforementioned problems, Finance personnel estimate that it will take 6 months to 1 year to complete reconciliations. In view of the Public Law 100-202 requirement that trust funds be reconciled before being transferred under a third party contract, the Bureau needs to restore integrity to the system by promptly completing the reconciliation process.

#### Recommendations

We recommend that the Assistant Secretary - Indian Affairs direct the Billings Area Office Director to:

1. Place a high priority on bringing the Individual Indian Money account reconciliations up to date and, thereafter, on performing reconciliations on a timely basis.
2. Ensure that appropriate and supported adjusting entries are made in a timely manner to correct errors discussed in our report and identified by the reconciliations.
3. Require that all agency account balances not included in prior reconciliation efforts now be reconciled and closed out.

We also recommend that the Billings Area Office Director and the Chief, National Technical Support Center, Albuquerque, New Mexico, be directed to:

4. Correct the subsidiary system deficiencies involving the manual interest transactions and agency location codes.

5. Modify the present subsidiary system to provide the Billings Area Office with a subsidiary ledger detail report suitable for reconciliation purposes.

#### Bureau of Indian Affairs Response

The Bureau generally concurred with Recommendations 1, 2, 3, and 4 but disagreed with Recommendation 5 (see Appendix 6 for the complete response). The Bureau's disagreement with Recommendation 5 was that the subsidiary ledger detail report did not need to be developed separately. The Bureau's response stated that the report would be provided as part of the process of correcting system deficiencies as recommended in Recommendation 4.

#### Office of Inspector General Comments

Representatives of the Bureau's Branch of Trust Fund Accounting met with Office of Inspector General staff in Sacramento, California, on August 3, 1988, to discuss the Bureau's response and the report recommendations. Although the Bureau agreed with Recommendations 1, 2, 3, and 4, an action plan is needed which identifies specific actions to be taken to implement the recommendations, along with target dates and names of officials responsible for implementation. Concerning Recommendation 5, the Bureau's disagreement appears to be based on a misunderstanding of the recommendation. We believe that the need for a modified subsidiary ledger detail report is critical if the Billings Area Office is going to perform its reconciliations efficiently and that waiting until a new system is developed will compound the reconciliation problems. We believe, as discussed with the Bureau's Chief, Branch of Trust Fund Accounting, that a subsidiary ledger detail report which will provide the necessary detail to perform reconciliations can be generated from the present system. Accordingly, we have changed our recommendation to make it clearer and request that the Bureau reconsider the recommendation and provide an action plan which identifies specific actions to be taken to implement the recommendation, along with target dates and names of the officials responsible for implementation.

## B. DOCKET 184 JUDGMENT FUND DISTRIBUTION

The Billings Area Office made available Docket 184 judgment funds to two reservation communities in excess of those authorized by resolutions of the Assiniboine and Sioux Tribes of the Fort Peck Reservation. The Bureau Manual requires specific authorization from tribes for the amount of tribal funds that may be transferred from the U.S. Treasury. Further, on April 11, 1983, Tribal resolution provided a formula to distribute the Tribes' social and economic program funds among the six reservation communities based on a population census. However, the Bureau advanced funds to two communities based on inaccurate estimates and did not provide the Tribes with a report showing the communities' actual shares. As a result, two communities have overdrawn their shares by about \$93,000 in principal and interest, and the Bureau is overdue in providing the information needed by the Tribes to complete the distribution of their Docket 184 judgment funds.

One purpose of dividing the funds among the communities was to enable two communities, Wolf Point and Poplar, to make a private investment. The Tribal resolutions authorizing the investments stipulated that the invested amounts would be the communities' population-based shares of the Docket 184 social and economic program funds. However, because the Bureau had not accurately computed the communities' shares, the two communities were allowed to invest \$2.4 million in February and April 1983 based on estimates developed by the investment firm and the Bureau. The \$2.4 million was \$56,803 more than what should have been given to the communities because the estimates omitted two prior disbursements to Poplar and did not consider the interest effect of these and other prior disbursements.

Finance was to develop final adjusted figures for the communities' actual shares at a later date. However, the Area Office Financial Manager informed us that Finance did not have the resources to complete the task.

We computed a distribution of the Docket 184 judgment funds by community through November 30, 1987. The results, presented in Appendix 5, show that the Wolf Point and Poplar communities had overdrawn their judgment fund shares by a total of \$93,304. The \$93,304 consists of the \$56,803 overdrawn for investments in February and April 1983 plus subsequent interest relating to the overdrawn amounts.

The Area Office's former Operating Accountant, whose allegations are the subject of this report, had raised the issue that the Bureau may be potentially liable for the overdraws by the two communities. The Area Office Financial Manager did not agree that Bureau liability exists, on the basis that Part 83 of the Bureau of Indian Affairs Manual states that "once advanced to local tribal authorities, the authority to expend and control the funds becomes a tribal responsibility. Bureau and Departmental responsibility is advisory."

We disagree with the Area Office Financial Manager's conclusions because the Tribal resolutions authorizing the April 1983 investments did not specifically request or approve the overdraws of \$56,803 for Wolf Point and Poplar. Such approval as to the amounts of tribal funds advanced from the U.S. Treasury is required by subsection 9.4C(2)(c) of the Bureau of Indian Affairs Manual, Part 83. Accordingly, we believe the Bureau should provide

an accounting of the judgment funds by community and work with the Tribes to resolve the overdraws.

#### Recommendations

We recommend that the Assistant Secretary - Indian Affairs direct the Billings Area Office Director to:

1. Provide the Assiniboine and Sioux Tribes of the Fort Peck Reservation with an accounting, by community, of the distribution of their Docket 184 judgment funds.
2. Resolve the overdraws by working with the Assiniboine and Sioux Tribes of the Fort Peck Reservation to arrive at a final distribution of the Docket 184 judgment funds.
3. Comply with the Bureau's approval requirements before advancing tribal funds from the U.S. Treasury.

#### Bureau of Indian Affairs Response

The Bureau generally concurred with Recommendations 1 and 2 and disagreed with Recommendation 3. The Bureau's disagreement with Recommendation 3 was that the Bureau's actions were in compliance with the "Plan for Use and Distribution of Fort Peck Assiniboine and Sioux Tribes Judgement Funds in Docket 184." The resolutions authorized the distributions based on population percentage of the communities but did not specify amounts. Furthermore, the calculations were based on the distribution formula provided by Tribal Resolution No. 2032-83-3, enacted March 14, 1983, rather than the April 11, 1983, resolution mentioned in the draft report. The April 11, 1983, resolution was not received by the Area Office until July 1983, and the distribution of funds was accomplished April 28, 1983.

The Bureau also disagreed with our contention that it was required to obtain specific approval from the Tribes as to the specific amounts to be distributed. The Bureau's position is "that the tribal governing body goes through the process of passing and approving the document which requests the funds, the BIA must approve the purpose and amount," not the reverse as indicated in our draft report.

The Bureau also disagreed with the initial overdrawn amount of \$58,881 cited in the draft report and provided information concerning three transactions that was not considered in the audit computation.

#### Office of Inspector General Comments

The Bureau's response was discussed with the Area Financial Manager, Billings Area Office, during the August 3, 1988, meeting. Although the Bureau agreed with Recommendations 1 and 2, an action plan is needed which identifies specific actions to be taken to implement the recommendations, along with target dates and names of officials responsible for implementation.

We agree that the Bureau has approval authority for distribution of trust funds. However, the Bureau's own manual provides that the Bureau "is vested with the power to approve as to purpose and amount, such amounts as are similarly approved and requested to be advanced by tribal governing bodies." [Emphasis added.] In this case, the tribal governing body approved the method of determining the amounts but did not specifically approve the amounts advanced. Secondly, because of errors in the Bureau's computations, the amounts advanced were not in accordance with the Tribes' formula, regardless of which resolution is used. Using the March 14, 1983, resolution cited in the Bureau's response, the initial overdistribution would amount to \$45,451. Therefore, we request that the Bureau reconsider Recommendation 3 and provide an action plan which identifies the specific actions to be taken to implement the recommendation, along with target dates and names of officials responsible for implementation.

We considered the additional supporting documentation provided by the Area Financial Manager at the August 3, 1988, meeting and have revised the amounts presented in the report. The revised April 28, 1983, and November 30, 1987, overdrawn amounts for Wolf Point and Poplar communities are \$56,803 and \$93,304, respectively.

BILLINGS AREA OFFICE INDIVIDUAL INDIAN MONEY ACCOUNTS  
COMPARISON OF SUBSIDIARY LEDGER AND GENERAL LEDGER  
CONTROL TOTALS AS OF FEBRUARY 28, 1986.  
BEFORE AUDIT ADJUSTMENTS

<u>Control Accounts</u>	<u>Subsidiary Totals</u> <u>February 28, 1986</u>	<u>General Ledger Totals</u> <u>February 28, 1986</u>	<u>Difference</u>
Individual accounts	\$29,622,877	\$56,716,203	\$(27,093,326)
Tribal accounts	8,800,946	(10,638,087)	19,439,033
Undistributed interest	(9,460,717)	(2,281,038)	(7,179,679)
Contract funds	235,511	5,003	230,508
Special deposits	<u>12,755,517</u>	<u>5,736,367</u>	<u>7,019,150</u>
Total	<u>\$41,954,134*</u>	<u>\$49,538,448</u>	<u>\$ (7,584,314)</u>

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\*Excluding the Undistributed Interest account, which does not represent a liability to account holders, the stated total of the underlying account balances as of February 28, 1986, was \$51,414,851. The Undistributed Interest account is strictly a clearing account for the distribution and reimbursement of interest. As such, the account is used to keep track of interest which is credited to individual accounts. Periodically, the Undistributed Interest account is reimbursed for interest previously distributed to the individual accounts. A debit (negative) balance in the account normally means that the Area Office has distributed more interest to account holders than what has been reimbursed by the Bureau's Branch of Trust Fund Accounting.

BILLINGS AREA OFFICE INDIVIDUAL INDIAN MONEY ACCOUNTS  
COMPARISON OF SUBSIDIARY LEDGER AND GENERAL LEDGER  
CONTROL TOTALS AS OF FEBRUARY 28, 1986.  
AFTER AUDIT ADJUSTMENTS

<u>Control Accounts</u>	<u>Subsidiary Totals</u> <u>February 28, 1986</u> <u>(Adjusted)*</u>	<u>General Ledger Totals</u> <u>February 28, 1986</u> <u>(Adjusted)**</u>	<u>Difference</u>
Individual accounts	\$29,622,877	\$27,771,901	\$ 1,850,976
Tribal accounts	8,800,946	11,621,520	(2,820,574)
Undistributed interest	(1,920,827)	(2,281,038)	360,211
Contract funds	235,511	5,003	230,508
Special deposits	<u>12,755,517</u>	<u>12,750,854</u>	<u>4,663</u>
Total	<u>\$49,494,024</u>	<u>\$49,868,240</u>	<u>\$ (374,216)***</u>

\*See Appendix 3 for explanation of adjustments.

\*\*See Appendix 4 for explanation of adjustments.

\*\*\*This is a net difference which would not reveal the existence of errors which offset one another between control accounts or between the two automated systems. (An example of the former is the general ledger misclassifications illustrated in Appendix 4.)



BILLINGS AREA OFFICE INDIVIDUAL INDIAN MONEY ACCOUNTS  
FEBRUARY 28, 1986, SUBSIDIARY LEDGER CONTROL TOTALS  
RESTATED FOR AUDIT ADJUSTMENTS

<u>Control Accounts</u>	<u>Subsidiary Totals</u> <u>February 28, 1986</u>	<u>Adjustments</u>	<u>Subsidiary Totals</u> <u>February 28, 1986</u> <u>(Adjusted)</u>
Individual accounts	\$29,622,877		\$29,622,877
Tribal accounts	8,800,946		8,800,946
Undistributed interest	(9,460,717)	\$(12,104,631)* 19,644,521**	(1,920,827)
Contract funds	235,511		235,511
Special deposits	<u>12,755,517</u>	<u>                    </u>	<u>12,755,517</u>
Total	<u>\$41,954,134</u>	<u>\$ 7,539,890</u>	<u>\$49,494,024</u>

\*The \$12.1 million misstatement is the result of a computer system design defect which caused the loss of most of the Undistributed Interest account balance during each run of a special utility program. The problem occurred because the Undistributed Interest control total was maintained without storing all corresponding transactions within the subsidiary ledger system. Instead, most interest debit entries, particularly the automated interest disbursements, simply incremented the control total without leaving a transaction stored within the system.

The Area Office occasionally used the utility program ("Program IM011") to force the system to balance by making all control totals equal the sum of their underlying transactions. This caused most of the Undistributed Interest control total to be lost each time the program was run.

The defect was reportedly corrected with program changes made in October 1985. However, as discussed in the Reconciliations section of Finding A, other defects have continued to cause imbalances within the system. Further, the Area Office had not restored the \$12.1 million in previously lost balances to the Undistributed Interest control account.

\*\*The \$19.6 million misstatement resulted from Finance personnel not posting semiannual interest reimbursements to the automated subsidiary ledger. Until 1981, a design error in the system did not permit the posting of these reimbursement credits. Although the problem was reportedly corrected in April 1981, Finance continued to record the reimbursement credits only on manual records until the Area Office stopped reconciling in mid-1985.

In August 1986, Finance attempted to bring the reimbursement credits up to date on the computerized subsidiary ledger by entering adjustments totaling \$12.2 million. A difference of \$7.4 million between the two adjustments (\$19.6 million and \$12.2 million) was primarily attributable to (1) reimbursements for special deposit interest (\$5.2 million) and (2) other post-April 1981 interest reimbursements (\$1.8 million) which were not entered by Finance personnel.

BILLINGS AREA OFFICE INDIVIDUAL INDIAN MONEY ACCOUNTS  
FEBRUARY 28, 1986. GENERAL LEDGER CONTROL TOTALS  
RESTATED FOR AUDIT ADJUSTMENTS

<u>Control Accounts</u>	<u>General Ledger Totals</u> <u>February 28, 1986</u>	<u>Adjustments</u>	<u>General Ledger Totals</u> <u>February 28, 1986</u> <u>(Adjusted)</u>
Individual accounts	\$56,716,203	\$(22,259,607)* (6,684,695)**	\$27,771,901
Tribal accounts	(10,638,087)	22,259,607*	11,621,520
Undistributed interest	(2,281,038)		(2,281,038)
Contract funds	5,003		5,003
Special deposits	<u>5,736,367</u>	<u>7,014,487**</u>	<u>12,750,854</u>
Total	<u>\$49,538,448</u>	<u>\$ 329,792</u>	<u>\$49,868,240</u>

\*The \$22.3 million represents misclassified transfers of funds for per capita payments and tribal budget requests. Because we attempted to analyze only larger differences, there are probably other misclassifications that we did not identify.

In October 1984, the Bureau established a separate control account in the general ledger system for tribal funds. Previously, the Bureau maintained these funds in the control account used for individuals. However, the Area Office did not establish a corresponding subsidiary ledger system control account for tribal funds until October 1985. During most of fiscal year 1985, data entry personnel continued to enter tribal fund transactions to the control accounts used for individuals on both systems.

In October 1985, a computer program was used to automatically select tribal fund transactions from the individuals control account and transfer them to the tribal control account within the subsidiary ledger system. By that point, the Area Office had stopped reconciling, and the misclassifications in the general ledger remained undetected. Immediately after the transfer, the difference between the two tribal fund control accounts was approximately \$18.4 million.

In March 1986, Finance entered \$12.5 million of adjustments to correct some of the misclassifications included in the \$22.3 million. The adjustments actually represented transactions totaling \$10.5 million, since some of the

adjustments were erroneously entered twice. Accordingly, Finance had not made adjustments totaling \$11.8 million and reversing entries totaling \$2.0 million at the time of our review.

\*\*The \$22.3 million includes \$4.9 million of items identified on the May 1985 reconciliation but not subsequently entered into the general ledger system through February 28, 1986. Based on a sample, we estimated that an additional \$6.7 million and \$7.0 million (both net) of May 1985 adjustments to two general ledger control accounts was not entered as of February 28, 1986. Most of this amount represented misclassifications between the two control accounts which had accumulated from prior reconciliations.

Unlike our other adjustments, the \$6.7 million and \$7.0 million shown on our schedule are sample-based estimates presented for analysis purposes only. Accordingly, Finance personnel will have to determine the actual adjustments necessary when the reconciliations are brought current.

ASSINIBOINE AND SIOUX TRIBES OF THE FORT PECK RESERVATION  
DISTRIBUTION OF DOCKET 184  
JUDGMENT FUNDS BY COMMUNITY  
AS OF NOVEMBER 30, 1987

<u>Community Name</u>	<u>November 30, 1987 Balance</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Wolf Point	\$(231,275)	\$219,844	\$(11,431)
Poplar	128,560	(210,433)	(81,873)
Fraser	121,309	(48,576)	72,733
Brockton	152,311	156,376	308,687
Fort Kipp	(3,192)	20,671	17,479
Oswego	<u>8,472</u>	<u>25,090</u>	<u>33,562</u>
Total	<u>\$ 176,185</u>	<u>\$162,972</u>	<u>\$339,157</u>

Explanation of Schedule

This schedule presents the results of our computations of each community's share of the remaining Docket 184 social and economic program funds as reported in the November 30, 1987, "Summary of Trust Funds." Our computations were based on the community population figures specified in Tribal Resolution No. 2148-83-3, dated April 11, 1983.

The communities' initial population-based shares were computed then successively reduced for actual disbursements. The trust investment interest calculated by the Bureau's Branch of Trust Fund Accounting was allocated according to the communities' respective shares at the time the interest was posted. Our computations decreased Wolf Point's and Poplar's shares and increased the other communities' shares to recognize the interest effect of the April 1983 overdraws from the investment pool. Consequently, Wolf Point's and Poplar's negative shares increased from \$56,803 (\$6,959 and \$49,844, respectively) as of April 28, 1983, to \$93,304 (\$11,431 and \$81,873, respectively) as of November 30, 1987.



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

JUL 27 1988

Accounting Management  
MS 4070

## Memorandum

To: Office of the Inspector General

From: Acting Assistant Secretary - Indian Affairs

Subject: Response to Draft Audit Report, "Review of Selected Aspects of Trust Fund Administration by the Billings Area Office, Bureau of Indian Affairs" (No. W-IA-BIA-12-88)

In response to the Office of Inspector General's Draft Audit Report No. W-IA-BIA-12-88, we are submitting the following responses. The first set is in response to the IIM portion of the audit. The second set is in response to the Docket 184 Portion of the audit.

### Recommendation 1:

Place a high priority on bringing the Individual Indian Money account reconciliations up to date and, thereafter, performing reconciliations on a timely basis.

### BIA Response:

We agree. The Bureau has completed IIM Reconciliation Training which showed the Agency IIM Clerks how to do a verification of their daily entries. This training was completed as of January 31, 1988. The Branch of Trust Fund Accounting in Albuquerque has established a system for monitoring the monthly submissions of the ISSDA Reconciliations.

To supplement the above procedures in an effort to address the backlog of prior year deficiencies in the preparation of reconciliations, the Bureau is contracting with a CPA Firm to provide assistance to all areas and agencies in preparing the necessary reconciliations. This effort is scheduled to begin August 1, 1988.

The Billings Area will be a main priority in this contracted assistance. In addition, the reconciliation process is being computerized on PC's in the Billings Area.

Recommendation 2: Ensure that appropriate and supported adjusting entries are made in a timely manner to correct errors discussed in our report and identified by the reconciliations.

BIA Response:

We agree. Training will be provided to the "bookkeeper" in Billings who is responsible for the reconciliation process. In addition, the critical elements of the evaluation process will be changed to incorporate the timely adjusting entries. Training in the bookkeeping process will be provided to the other clerks who work in IIM. Their elements will also be changed to include this item.

Recommendation 3: Require that all agency account balances not included in prior reconciliation efforts now be reconciled and closed out.

BIA Response:

We agree. These "agency account balances may or may not be actual agency balances, but they will be researched to determine if actual balances exist or if the balance is an encoding error. In either case, the balance will be corrected or closed out. This process will be a part of the contracted assistance discussed in Recommendation #1. Written instructions to the field offices have been developed by the Branch of Trust Fund Accounting. These instructions will be distributed to all locations during July 1988. The instructions will describe the procedures to be used by all locations to balance their accounts.

Recommendation 4: Correct the subsidiary system deficiencies involving the manual interest transactions and agency location codes.

BIA Response:

We agree. The Branch of Trust Fund Accounting and the Billings Area have requested a meeting with Inspector General's Office to discuss the system deficiencies and will request assistance from that office to determine the steps to be taken to correct the deficiencies.

Recommendation 5: Develop and provide to the Billings Area Office a subsidiary ledger detail report suitable for reconciliation purposes.

BIA Response:

We disagree. The Subsidiary Ledger Detail Report does not need to be developed separately. We feel this problem is a part of the system deficiencies addressed in Recommendation 4. This report will be provided as part of the process of correcting the system deficiencies.

Inspector General's Findings:

B. DOCKET 184 JUDGMENT FUND DISTRIBUTION

The Billings Area Office made available Docket 184 judgment funds to two reservation communities in excess of those authorized by resolutions of the Assiniboine and Sioux Tribes of the Fort Peck Reservation. The Bureau Manual requires specific authorization from tribes for the amount of tribal funds that may be transferred from the United States Treasury. Further, an April 11, 1983, Tribal resolution provided a formula to

distribute the Tribes' social and economic program funds among the six reservation communities based on a population census. However, the Bureau advanced funds to two communities based on inaccurate estimates and did not provide the Tribes with a report showing the communities actual shares. As a result, two communities have overdrawn their shares by about \$97,000 in principal and interest, and the Bureau is overdue in providing the information needed by the Tribes to complete the distribution of their Docket 184 judgment funds.

One purpose of dividing the funds among the communities was to enable two communities, Wolf Point and Poplar, to make a private investment. The Tribal resolutions authorizing the investments stipulated that the invested amounts would be the communities' population-based shares of the Docket 184 social and economic program funds. However, because the Bureau had not accurately computed the communities shares, the two communities were allowed to invest \$2.4 million in February and April 1983 based on estimates developed by the investment firm and the Bureau. The \$2.4 million was \$58,881 more than what should have been given to the communities because the estimates omitted two prior disbursements to Poplar and did not consider the interest effect of these and other prior disbursements.

Finance was to develop final adjusted figures for the communities actual shares at a later date. However, the Area Office Financial Manager informed us that Finance did not have the resources to complete the task.

We computed a distribution of the Docket 184 judgment funds by community through November 30, 1987. The results, presented in Appendix 5, show that the Wolf Point and Poplar communities had overdrawn their judgment fund shares by a total of \$96,717. The \$96,717 consists of the \$58,881 overdrawn for investments in February and April 1983, plus subsequent interest relating to the overdrawn amounts.

The Area Office's former Operating Accountant whose allegations are the subject of this report had raised the issue that the Bureau may be potentially liable for the overdraws by the two communities. The Area Office Financial Manager did not agree that Bureau liability exists, on the basis that Part 83 of the Bureau of Indian Affairs Manual states that "once advanced to local tribal authorities, the authority to expend and control the funds becomes a tribal responsibility. Bureau and Departmental responsibility is advisory."

We disagree with the Area Office Financial Manager's conclusions because the Tribal resolutions authorizing the April 1983 investments did not specifically request or approve the overdraws of \$58,881 for Wolf Point and Poplar. Such approval as to the amounts of tribal funds advanced



from the United States Treasury is required by subsection 9.4C(2)(c) of the Bureau of Indian Affairs Manual, Part 83. Accordingly, we believe the Bureau should provide an accounting of the judgment funds by community and work with the Tribes to resolve the overdraws.

BIA Response:

We feel that our actions were in compliance with the "Plan for Use and Distribution of Fort Peck Assiniboine and Sioux Tribes Judgment Funds in Docket 184," which became effective July 24, 1981, and was published in the FEDERAL REGISTER on September 14, 1981.

We were acting in good faith and attempting to comply with the wishes of the tribal officials. Those wishes fell within the purview of the approved distribution plan. Deadlines were involved that tribal officials did not wish to miss since it involved a favorable interest rate from which they were wishing to benefit. The resolutions authorizing the advances did not specify amounts, but authorized distribution based on population percentage of the communities. The distributions were calculated by a tribal representative and the Branch of Investments in Albuquerque concurred with the amount. We had no reason to question the calculations since the distribution was in compliance with the plan and the funds were available in the trust account.

The resolution, enacted April 11, 1983, mentioned in the draft report was not available at the time the distributions were calculated. The distribution was accomplished April 28, 1983. The Bureau Area Office did not receive a copy of the resolution until July 1983. The calculations were based on the distribution formula provided by Tribal Resolution #2032-83-3, enacted March 14, 1983.

On Page 13 of the draft in the last paragraph, the following statement is made: "Such approval as to the amounts of tribal funds advanced from the United States Treasury is required by Subsection 9.4C(2)(c) of the Bureau of Indian Affairs Manual, Part 83." We feel that the IG has misinterpreted this subsection. The second paragraph of this subsection discusses the control of funds. It makes clear that prior to advance, such funds are controlled by Congress (as delegated) and that the BIA is vested with the power to approve the purpose and amount which is similarly approved and requested by the tribal governing bodies.

This means that the tribal governing body goes through the process of passing and approving the document which requests the funds, the BIA must approve the purpose and amount. It is not the other way around, as indicated on Page 13 of the draft.

Our calculations do not agree with the \$58,881 figure shown in the OIG Draft Report for the following reasons:

1. The February 1983 interest posting of \$29.64 occurred when the \$45,005 was made available for advancement to the tribe. We distributed the interest to all communities before the advance was made. Our records show that the advance was made February 1, 1983.

2. Journal Voucher JV83-195 restored a portion of the interest penalty of February 17, 1983. We distributed the restoration only to Wolf Point and Poplar Communities in the same ratio as the penalty was distributed. included the restored interest penalty.

3. The March 1983 interest posting is \$1,406. The auditor's calculation included restored interest penalty.

It is our contention that a Bureau liability does not exist. The plan states that 30 percent of the funds shall be available for expenditure by the tribal governing body for social and economic programs. The funds were advanced for an economic program as required by the plan. We feel that the distributions to the various communities are internal tribal plans that do not impact the Bureau's legal responsibilities, as outlined in the Plan.

Recommendation 1:

Provide the Assiniboine and Sioux Tribes of the Fort Peck Reservation with an accounting, by community, of the distributions of their Docket 184 judgment funds.

BIA Response:

We will comply with the recommendations; however, our calculations for the distributions do not agree with those of the auditor.

Recommendation 2:

Resolve the overdraws by working with the Assiniboine and Sioux Tribes of the Fort Peck Reservation to arrive at a final distribution of the Docket 184 judgment funds.

BIA Response:

Within the "Programming Aspect of the Use and Distribution Plan", no overdraw exists. However, we will work with the tribe to determine if the tribe wishes to make the adjustment. If the tribe wishes to make the adjustment, we will work with them to notify Dean Witter Reynolds to make the adjustment.

Recommendation 3:

Comply with the Bureau's approval requirements before advancing tribal funds from the United States Treasury.

BIA Response:

We feel we were in compliance with Bureau approval requirements. The approval of the advances in question were within the scope of the approved plan and adequate funds were available to meet the percentage requirement specified by tribal resolution.

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1	Management concurs; additional information required.	Provide a target date for bringing the reconciliations up to date, and identify the official responsible for implementation.
A.2	Management concurs; additional information required.	Provide target dates for providing the training to the bookkeeper and clerks and for changing the evaluation to include timely adjusting of entries as a critical element. Also, identify the official responsible for implementation.
A.3	Management concurs; additional information required.	Provide target date for reconciling and closing out all agency account balances that were not included in prior reconciliations, and identify the official responsible for implementation.
A.4	Management concurs; additional information required.	Provide an action plan identifying actions to be taken, target date for implementation, and the official responsible for implementation.
A.5	Unresolved.	Reconsider the recommendation, and provide an action plan identifying actions to be taken, target date for implementation, and the official responsible for implementation.
B.1 and B.2	Management concurs; additional information required.	Provide an action plan identifying actions to be taken, target dates for implementation, and the official responsible for implementation.
B.3	Unresolved.	Reconsider the recommendation, and provide an action plan identifying actions to be taken, target date for implementation, and the official responsible for implementation.